

## Financial Results in the Fiscal Year Ending March 31, 2020—FAQ

This document presents some of the anticipated questions relating to the Company's financial results in the fiscal year ending March 31, 2020, together with answers to these questions. If you have any queries, etc., please contact the IR Office of Odakyu Electric Railway Co., Ltd. (+81-3-3349-2526).

### The impact of the coronavirus epidemic

Q1: What impact has the coronavirus epidemic had on the Company's performance? (See P. 2–3 of the *Results for the FY2019*)

Performance in FY 2019

- As regards the impact on overall performance, revenue from operations fell by approximately 9.8 billion yen, and operating income fell by around 4.9 billion yen.

100 Millions of yen

	Revenue from operations	Operating income	Breakdown
Transportation	Δ42	Δ30	(Revenue from operations) RailwaysΔ29 (of which, Odakyu Electric RailwayΔ28) BussesΔ10 (Operating income) RailwaysΔ23 (of which, Odakyu Electric RailwayΔ23) BussesΔ7
Merchandising	Δ15	Immaterial	(Revenue from operations) Department StoresΔ29
Real Estate	Immaterial	Immaterial	
Other Businesses	Δ41	Δ19	(Revenue from operations) HotelsΔ24 RestaurantsΔ6 (Operating income) HotelsΔ15 RestaurantsΔ4
Total	Δ98	Δ49	

Plan for FY2020:

- With no clear picture as to when the coronavirus epidemic can be expected to end, it is currently difficult to formulate reasonable numerical targets that take into account both the impact of the epidemic on revenue from operations and the measures that the Company will need to take in response. As such, a financial results forecast and dividend forecast for the fiscal year ending March 31, 2021 have not yet been finalized.
- Please note that, for reference purposes, the Company's operational status as of April 2020 has been disclosed on TDnet and on the Company's website, on the day on which the Company's financial results were announced (May 14, 2020).

## Summary

### Q2: How did the Company perform in the Fourth Quarter (January–March) of FY2019?

Millions of yen	FY2018 1st–3rd quarters	FY2019 1st–3rd quarters	Change	FY2018 4th quarter	FY2019 4th quarter	Change	FY2018 1st–4th quarters	FY2019 1st–4th quarters	Change
Revenue from operations	388,731	393,219	+ 4,487 (+ 1.2%)	137,944	140,913	+ 2,969 (+ 2.2%)	526,675	534,132	+ 7,456 (+ 1.4%)
Transportation	135,442	134,342	△1,099	43,851	38,832	△5,019	179,293	173,174	△6,118
Merchandising	158,328	154,829	△3,499	52,352	51,734	△618	210,681	206,563	△4,117
Real Estate	44,777	46,341	+ 1,564	24,228	34,136	+ 9,907	69,006	80,478	+ 11,472
Other Businesses Adjustments	76,537	83,405	+ 6,867	30,399	28,850	△1,548	106,937	112,256	+ 5,318
	△26,354	△25,699	+ 654	△12,888	△12,640	+ 247	△39,242	△38,340	+ 902
Operating income	43,966	36,383	△7,582 (△17.2%)	8,123	4,719	△3,403 (△41.9%)	52,089	41,103	△10,986 (△21.1%)
Transportation	27,483	23,534	△3,949	1,782	△1,893	△3,675	29,265	21,641	△7,624
Merchandising	2,001	2,676	+ 675	959	1,697	+ 737	2,960	4,373	+ 1,413
Real Estate	10,197	7,366	△2,831	3,561	5,573	+ 2,012	13,759	12,940	△819
Other Businesses Adjustments	4,139	2,760	△1,378	1,800	△670	△2,470	5,939	2,090	△3,848
	145	45	△99	20	12	△7	165	58	△106
Ordinary income	42,674	35,197	△7,477 (△17.5%)	7,012	3,102	△3,910 (△55.8%)	49,687	38,299	△11,388 (△22.9%)
Net income attributable to owners of parent	27,976	21,628	△6,347 (△22.7%)	4,492	△1,704	△6,197 (-)	32,468	19,923	△12,545 (△38.6%)

## Transportation

Q3: Regarding the Company's performance in the Transportation segment, for the Transportation segment as a whole, revenue from operations in the Fourth Quarter fell significantly (by 5 billion yen) year-on-year. How big was the impact on the Company's Railway business?

- For the Railway business as a whole, revenue from operations fell by 3.5 billion yen in the fourth quarter (January–March) year-on-year. Odakyu Electric Railway itself accounted for 3 billion yen of this decline.  
(For reference) Total revenue from commuters fell by 300 million yen (revenue from work commuters fell by 100 million yen, and revenue from school commuters also fell by 100 million yen).  
Revenue from non-commuter passengers fell by 2.6 billion yen.
- This decline in revenue from operations was mainly attributable to people being encouraged to stay indoors because of the spread of the coronavirus epidemic.

Q4: Regarding the Company's railway business, to what extent has the Company had to provide refunds for commuter passengers? (See P. 9 of the *Results for the FY2019*)

- Special refund measures have been implemented for both work commuters and school commuters, but the impact to date has been only very slight.
- However, it is anticipated that there may be a further increase in refunds if outing restriction measures due to the coronavirus epidemic continue to be implemented, and that the number of passengers may fall due to changes in workstyles (such as promotion of teleworking, etc.)

Q5: Regarding the impact of multiple double track construction, how does the Company see this affecting performance in FY2019 and from FY2020 onwards? (See P. 9 of the *Results for the FY2019*)

- Although we have seen some impact on work commuters due to the promotion of teleworking that accompanied the growth of the coronavirus epidemic in March 2020, whole-year performance in FY2019 was still higher than in the previous year, so the Company is continuing to see the benefits from multiple double track construction.
- As regards non-commuter passengers, although overall there was a decline in revenue due to the impact of severe typhoons, the temporary suspension of operation of some modes of transport in the Hakone area, and the outing restriction measures that accompanied the spread of the coronavirus epidemic, nevertheless, in the Third Quarter high growth was maintained in areas where significant benefits from multiple double track construction were anticipated, including the Setagaya area and Noborito, so the benefits from multiple double track construction are continuing to make themselves felt.
- With regard to the original target (of realizing an increase in revenue of at least 5 billion yen during the first half of the 2020s), because it is currently difficult to forecast just how severe the impact of the coronavirus epidemic will be, consideration may need to be given to adjusting the target based on careful monitoring of actual circumstances.

Q6: Regarding revenue from business in the Hakone area, overall there has been a fall in revenue from operations of 4 billion yen. How much impact has each individual factor had on this decline in revenue? (See P. 9 of the *Results for the FY2019*)

- The fall in revenue in FY2019 was mainly attributable to the following three factors:
  - ① The temporary suspension of operation of the Hakone Ropeway due to the raising of the volcanic eruption warning level in the vicinity of the Owakudani valley in Hakone.
  - ② The temporary suspension of operation of the Hakone Tozan Railway between Hakone-Yumoto Station and Gora Station due to the impact of Typhoon No. 19\*.
  - ③ The impact of outing restrictions resulting from the spread of the coronavirus epidemic.

	2019									2020		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
①		19th→	→	→	→	→	→26th					
②*							12th→	→	→	→	→	→
③										→	→	→

\*Planned resumption of operation in late July 2020.

- As there has been some overlap in terms of the periods when these factors have been an issue, it is not possible to clearly distinguish how much of the fall in revenue is attributable to each individual factor. Revenue from operations in each quarter is shown in the table below.

(Reference) Revenue from operations in the Hakone area by Quarter

	Millions of yen			
	1st quarter	2nd quarter	3rd quarter	4th quarter
FY2019	5,341	4,606	4,064	3,695
FY2018	5,394	5,300	5,948	5,138
Change	Δ52	Δ693	Δ1,883	Δ1,442

Q7: Regarding revenue from business in the Hakone area, overall there has been a fall in revenue from operations of 4 billion yen. How much of this is attributable to the fall in revenue from inbound tourism? (See P. 9 of the *Results for the FY2019*)

- With the exception of the Odakyu Sightseeing Service Centers, which are dedicated service centers for overseas tourists, it is difficult to determine inbound tourists' usage status (in terms of the number of users of IC cards, number of people purchasing tickets from ticket vending machines, etc.). It is therefore not possible to clearly differentiate between inbound tourists and domestic travelers.
- For reference purposes, the number of Hakone Freepass discount passes sold at the Odakyu Sightseeing Service Centers accounts for approximately 30% of all Hakone Freepass sold.

No. of Hakone Freepass sold—Year-on-year growth rate

The overall growth rate is  $\Delta 41.1\%$ . (The growth rate for those sold through Odakyu Sightseeing Service Centers is  $\Delta 30.0\%$ )

Q8: Regarding the main reasons for the increase in operating expenses, what is the reason for the increase in Odakyu Electric Railway's depreciation and its repair costs? (See P. 10 of the *Results for the FY2019*)

- The increase in depreciation is due to investment in equipment maintenance and upgrading (including upgrading of station machinery, etc.).
- The increase in repair costs is due to measures taken in response to the adjustment of fares that was necessitated by the increase in the rate of Consumption Tax in October last year.
- The "Other" category of operating expenses rose by 800 million yen year-on-year. This was mainly due to expenses relating to new business areas (such as MaaS, etc.), as well as an increase in general and administrative expenses.

## Merchandising

Q9: Regarding the department store business, what is the current trend in regard to duty-free sales? (See P. 11 of the *Results for the FY2019*)

(In 2020)

January: Duty-free sales rose by 1.5% (Average spending per customer rose by 11.9%, while the number of purchasers fell by 9.3%)

February: Duty-free sales fell by 64.5% (Average spending per customer rose by 6.6%, while the number of purchasers fell by 66.7%)

March: Duty-free sales fell by 78.4% (Average spending per customer rose significantly, while the number of purchasers fell by 90.2%)

April: Duty-free sales fell by 99.3%

(For reference)

May: As of May 12th, no duty-free sales had been recorded.

Q10: Regarding store and retail business, revenue performance was 41 million yen down compared to the forecast for FY2019 that was announced in February 2020. Were there no positive factors, such as increased demand due to the impact of the coronavirus epidemic? (See P. 11 of the *Results for the FY2019*)

- Odakyu Shoji's supermarket business saw an increase in revenue of 94 million yen compared to the forecast for FY2019. This was because of increased demand due to more people eating at home as a result of the coronavirus epidemic.
- By contrast, regarding Seven-Eleven business etc., revenue in this segment was down 63 million yen compared to the forecast for FY2019, due to the impact of the reduction in the number of railway users because of the coronavirus epidemic.

Q11: Regarding store and retail business, what is the current status of the business alliance with Seven & i Holdings Co., Ltd.? (See P. 11 of the *Results for the FY2019*)

In-station store business and convenience store (CVS) business:

- Transformation of stores into Seven-Eleven franchise stores was completed in December 2019, and 50 stores are currently in operation (including 45 converted stores and 5 new stores).
- As a result of the transformation of stores into Seven-Eleven franchise stores, the in-station store business and CVS business segment posted an 1.2 billion yen year-on-year increase in revenue from operations and a 2 million yen year-on-year increase in operating income.
- Comparison of average daily sales in the in-station store business and CVS business in FY2019 with the situation prior to the conversion of stores to Seven-Eleven franchise stores shows that there has been substantial revenue growth since the conversion took place (with an increase in revenue of around 40% compared to the previous year).

Q12: Regarding the amount of adjustments, up until the Third Quarter a “Supplementary amortization of goodwill in relation to Shirohato” was booked. Why was this not included in the annual results? (See P. 11 of the *Results for the FY2019*)

- For the annual results, impairment loss accounting was used for goodwill; a total of 700 million yen of impairment loss was booked for amounts that were deemed to be unrecoverable.
- With regard to Shirohato, we are approaching our relationship with this company with appropriate awareness of the potential risks. We are continuing to provide Shirohato with various forms of support, including assistance to help the company improve its management structure and formulate a strategic plan; in the future, we will continue to collaborate with Shirohato to help them become profitable again as soon as possible.

(For reference)

- Accounting treatment in the third quarter of FY2019 results  
In the third quarter financial results for Odakyu Electric Railway, in response to the fall in the market value of Shirohato’s stock, a revaluation loss was booked in relation to these shares, and the book value of the shares was reduced. In the consolidated results for the Odakyu Group as a whole, as the combined total of the goodwill balance booked at the time of acquiring the shares and Odakyu’s share of Shirohato’s net assets was less than the reduced book value of the shares as recorded in Odakyu Electric’s Railway’s financial results, supplementary amortization was implemented in relation to the entire amount of the goodwill balance. (Booked under Operating Expenses as “Goodwill amortization”)
- Accounting treatment in the FY2019 whole-year results  
In the whole-year results for FY2019, impairment loss accounting was used for goodwill, the same as for business-use fixed assets. Due to the downturn in Shirohato’s business performance, it was judged that the total cash-flow that could be expected to be obtained during the period of amortization of the goodwill balance would be lower than the total value of the Shirohato asset group (including goodwill), and so an impairment loss (extraordinary loss) was booked with respect to that portion of the total amount that was deemed to be irrecoverable.

## Real estate

Q13: Regarding the real estate sales business, what is the reason for the pronounced increase in the number of units sold compared to the previous year? (See P. 12 of the *Results for the FY2019*)

- Performance in FY2019 included sales of units from the first building of the Ebina Tower Mansion, which began in January 2020, and led to a significant increase in revenue compared to the previous year.

Q14: Regarding the real estate sales business, what is the reason for revenue from operations being 1.9 billion yen lower than the figure given in the forecast for FY2019 that was announced in February 2020? (See P. 12 of the *Results for the FY2019*)

- The main reason for this situation was that sales of detached houses within Tokyo and of condominiums in the suburbs were lower than was originally anticipated.

Q15: Regarding the real estate sales business, what is the situation regarding procurement of properties for sale in the period from FY2020 onwards? (See P. 12 of the *Results for the FY2019*)

- Procurement of properties for FY2020 has already been completed. However, the sales plan may need to be revised in the future depending on the impact of the coronavirus epidemic.
- Procurement of properties for FY2021 is around 90% completed. Further procurement may be undertaken depending on the state of the market.

Q16: Regarding the real estate rental business, revenue rose by 2.2 billion yen compared to the previous year. Has this business been affected by the coronavirus epidemic? (See P. 12 of the *Results for the FY2019*)

- With regard to commercial facilities, in March rental reduction and exemption measures were implemented to assist tenants affected by reduced business hours and temporary closure.
- At the same time, however, overall revenue rose compared to the previous year because of the contribution made by newly-opened projects (including Odakyu Shonan Gate and Hotel Clad in Gotemba, etc.)
- With regard to the situation affecting commercial facilities in FY2020, performance is being impacted by rental reduction and exemption measures implemented in relation to facilities that were completely closed in April and May (with only those stores selling essential goods being permitted to remain open).

## Other businesses

Q17: Regarding the hotel business, revenue fell by 2.4 billion yen compared to the forecast for FY2019 that was announced in February 2020. What were the main areas where revenue declined, and what were the reasons for this? (See P. 13 of the *Results for the FY2019*)

- The decline in revenue was particularly pronounced at hotels in the Shinjuku area.  
(For reference) The combined revenue of hotels in the Shinjuku area fell by 1.5 billion yen.  
(Hyatt Regency Tokyo and Hotel Century Southern Tower)  
The combined revenue of hotels in the Hakone area fell by 200 million yen.  
(Hotel de Yama, Hakone Highland Hotel and Hotel Hatsuhana)
- For hotels in both areas, the main reason for the fall in revenue was the impact of the coronavirus epidemic.

Q18: Regarding the hotel business, how is the Company handling its target of “opening around 15 hotels and realizing annual revenue of 42 billion yen in FY2020”? (See P. 13 of the *Results for the FY2019*)

- Regarding the target for the hotel business of achieving annual revenue of 42 billion yen in FY2020, this will be difficult to achieve, for the following reasons:
  - ① Revenue from operations has fallen because of the sale of shares in Hotel Odakyu Shizuoka in FY2019.
  - ② Revenue from existing hotels has fallen because of the impact of the coronavirus epidemic.
- Regarding the target for opening new hotels, to date, a total of 9 new hotels have been opened, including 4 hotels in Miyako-jima, Okinawa, 3 hotels in Tokyo, 1 hotel in Hakone, and 1 hotel in Gotemba.
- If the 2 hotels where the official announcement of hotel establishment has already been made are included, then it can be anticipated that the goal of opening 15 new hotels by FY2020 will more or less be met.
- In the future, the Company will continue to open the already planned hotels.

(Reference) Hotel opening plan (including properties already opened)

\*Property holding status □: Lease method ■: Directly management method

	Name of hotel	Location	No. of guest rooms	Date of opening	*
1	HOTEL LOCUS	Miyakojima	100	Jan. 2018	■
2	HAMACHO HOTEL	Nihombashi	170	Feb. 2019	□
3	MUJI HOTEL GINZA	Ginza	79	Apr. 2019	□
4	the rescape	Miyakojima	41	May 2019	□
5	ONSEN RYOKAN YUEN SHINJUKU	Shinjuku	193	May 2019	□
6	HAKONE YUTOWA	Hakone	72	Aug. 2019	■
7	HOTEL CLAD	Gotemba	182	Dec. 2019	■
8	HOTEL ANTEROOM NAHA	Naha	126	Feb. 2020	□
9	HOTEL STRATA NAHA	Naha	221	Apr. 2020	□
10	ONSEN RYOKAN YUEN SAPPORO	Sapporo	182	Aug. 2020	□
11	ONSEN RYOKAN YUEN BETTEI DAITA	Setagaya	35	Sep. 2020	■

Hotels scheduled to open from FY2021 onwards:

- Hakata, Fukuoka: Development of a lodging-focused, condominium-type hotel (scheduled to open in the spring of 2022)

Overseas hotels (non-consolidated):

- Beijing, China: Muji Hotel Beijing (opened in March 2018)
- Seoul, South Korea: Hotel Anteroom Seoul Garosugil (provisional name) (scheduled to open in July 2020)
- Mirissa, Sri Lanka: Resort hotel development project (scheduled for 2022)

**Q19: Regarding the hotel business, what is the operational status of the Company's newly-developed hotels? (See P. 13 of the *Results for the FY2019*)**

- Prior to the impact of the coronavirus epidemic, resort hotels located in the Hakone area were already experiencing a fall in guest numbers due to the temporary closure of sections of the Hakone Tozan Railway, but hotels outside the Hakone area were generally doing reasonably well.
- Currently, all hotels are being negatively impacted by the coronavirus epidemic.

### **Inbound tourism**

**Q20: Regarding revenue from inbound tourism, will the original target of achieving 28 billion yen of revenue from inbound tourism for the Odakyu Group as a whole in FY2020 need to be adjusted?**

- Revenue from operations relating to inbound tourism in FY2019 was lower than in the previous year as a result of the severe typhoon that struck Japan in October 2019, and the coronavirus epidemic that began to affect Japan from January 2020 onwards. (Total inbound tourism related revenue in FY2019 was approximately 22.8 billion yen, representing a decrease of 1.2 billion yen, or 5.2%, compared to the previous year)
- As the outlook for the future currently remains unclear, we have abandoned our target of achieving 28 billion yen of revenue related to inbound tourism by FY2020. We will carefully monitor future developments, and we will be implementing appropriate measures as necessary to respond to any upturn in demand in the tourism sector.

Future strategy:

- Until such time as the coronavirus epidemic is brought under control, we will be temporarily shelving our active approach towards developing overseas markets.
- Once the coronavirus epidemic is brought under control, we will be seeking to diversify risk to an even greater extent than in the past by strengthening our efforts to develop the European, North American and Australian markets in addition to the Asian market.
- As it can be anticipated that the needs of visitors to Japan in the post-coronavirus era will have changed, we will be implementing various measures aimed at strengthening the competitiveness of our products, enhancing promotion, expanding sales channels, and improving systems for receiving inbound tourists.

**Remarks**

Figures about business plans, future forecasts and strategies other than historical facts are forward-looking statements reflecting management's view.

Since the forward-looking statements are based on information available at the time of disclosure, the actual results may differ from these forecasts.